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Message Text

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PAGE 01 HONG K 05367 010521Z
ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 EUR-12
DODE-00 PA-02 L-03 H-02 /122 W
----------121849 010524Z /10/61
P R 202339Z APR 78
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC PRIORITY 134
INFO DEPARTMENT OF THE TREASURY WASHDC PRIORITY
AMEMBASSY TOKYO
AMEMBASSY SEOUL
AMEMBASSY MANILA
AMEMBASSY JAKARTA
AMEMBASSY SINGAPORE
AMEMBASSY KUALA LUMPUR
AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
AMEMBASSY WELLINGTON
AMEMBASSY TAIPEI
USLO PEKING

UNCLAS HONG KONG 5367

C O R R E C T E D C O P Y ADD EO, TAGS, SUBJ.

STATE FOR EA/PRCM AND EA/EP
TREASURY FOR OASIA MARESCA

E.O. 11652: N/A
TAGS: EFIN, HK
SUBJECT: HONG KONG RAISES PRIME RATE

SUMMARY.

1. THE HONG KONG EXCHANGE BANKS ASSOCIATION, REPRESENTING THE
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MAJOR BANKS IN THE COLONY AND DOMINAGED BY THE HONG KONG AND
SHANGHAI BANK (HSBC), ANNOUNCED APRIL 27 THAT THEY WOULD RAISE
RATE FROM 4.75 TO 5.50 ON MAY 1. THE LOWER RATE HAS BEEN IN
EFFECT SINCE APRIL 14,1977, WHEN THE PRIME WAS DROPPED FROM
5.50. TIGHTER LIQUIDITY CAUSED BY CURRENCY OUTFLOWS AND INCREASED
LOAN DEMAND, PARTICULARLY FROM HONG KONG'S BOOMING
CONSTRUCTION INDUSTRY, WERE CITED AS PRINCIPAL REASONS FOR

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THE BANKS' DECISION.

2. WHILE HONG KONG'S NEW PRIME RATE WILL STILL BE THE SECOND LOWEST IN ASIA, AFTER JAPAN'S, THE BANKS' DECISION WILL NARROW THE GAP BETWEEN THE HONG KONG AND US PRIME RATES. IT WILL ALSO PUT THE HONG KONG PRIME ABOVE THE LOCAL INTERBANK CALL RATE, A CORRECTION THAT AMERICAN AND OTHER FOREIGN BANKERS HAVE BEEN DEMANDING FOR THE PAST FOUR MONTHS. ACTING IN ITS "CENTRAL BANK" CLEARING-HOUSE ROLE, THE HSBC HAS KEPT ALL INTER-BANK RATES HIGH SINCE NOVEMBER 1977, WITH THREE-MONTHS MONEY AT ONE POINT SELLING FOR 7 PERCENT. IN THAT ENVIRONMENT, AMERICAN BANKS EITHER DID NOT LOAN HONG KONG DOLLARS TO LOCAL PRIME-RATE CLIENTS, OR LOANED AT A LOSS.

3. THE HONG KONG DOLLAR'S FOREIGN EXCHANGE VALUE HAS ALSO FIGURED IN THIS LATEST PRIME RATE ADJUSTMENT. MANY BANKERS SEE THE HIGHER PRIME RATE AS STABILIZING THE HONG KONG DOLLAR IN TERMS OF THE YEN AND THE RENMINBI, THE CURRENCIES OF HONG KONG'S TWO PRINCIPAL SUPPLIERS, AGAINST WHICH THE HONG KONG DOLLAR HAS DECLINED 19.5 PERCENT AND 11.4 PERCENT RESPECTIVELY SINCE JANUARY 1977.

4. HONG KONG DEPOSIT RATES WILL ALSO GO UP ON MAY 1. SAVINGS AND THREE-MONTHS DEPOSITS WILL EARN 2.25 PERCENT, UP FROM THE CURRENT 1.75 PERCENT PER ANNUM. SIX-AND TWELVE-MONTH DEPOSITS WILL EARN BETWEEN 3 AND 4 PERCENT, WITH THE HSBC
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AND THE CHARTERED BANK PAYING AT THE LOWER END OF THE SCALE. IN ADDITION A SEVEN-DAYS DEPOSIT RATE, ABANDONED IN JANUARY 1977, WILL BE RE-INTRODUCED, AT 2.25 PERCENT.
LEVIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK RATES, BANKS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978HONGK05367
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780188-1189, D780185-0227
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780436/aaaabeca.tel
Line Count: 98
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 316c79aa-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2905923
Secure: OPEN
Status: NATIVE
Subject: HONG KONG RAISES PRIME RATE SUMMARY.
TAGS: EFIN, HK
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/316c79aa-c288-dd11-92da-001cc4696bcc
Review Markings:
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